

Public Accounts Committee

Oral evidence: Government's delivery through arm's-length bodies, HC 181

Monday 5 July 2021

Ordered by the House of Commons to be published on 5 July 2021.

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Members present: Meg Hillier (Chair); Gareth Bacon; Dan Carden; Sir Geoffrey Clifton-Brown; Peter Grant; Mr Richard Holden; James Wild.

Gareth Davies, Comptroller and Auditor General, National Audit Office; David Fairbrother, Treasury Officer of Accounts; and Sian Jones, Director, National Audit Office, were in attendance.

Questions 1-89

Witnesses

I: Alex Chisholm, Chief Operating Officer for the Civil Service and Permanent Secretary, Cabinet Office; Tamara Finkelstein, Permanent Secretary, Department for Environment, Food and Rural Affairs; Cat Little, Director General, Public Spending, Non-Executive Director, and Head of the Government Finance Function, Her Majesty's Treasury; and Antonia Romeo, Permanent Secretary, Ministry of Justice.



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Report by the Comptroller and Auditor General

Central oversight of arm's-length bodies (HC 297, Session
2021–22)



Examination of witnesses

Alex Chisholm, Tamara Finkelstein, Cat Little and Antonia Romeo.

Q1 **Chair:** Welcome to the Public Accounts Committee on Monday 5 July 2021.

Today we will be looking at the Government's delivery of policies and public services through the diverse range of arm's-length bodies, which are not an insignificant part of Government. In 2018-19, they were responsible for spending £265 billion of taxpayers' money and employed over 300,000 people. Despite their responsibilities and importance, there is a lack of consistency in how these bodies work with central Government, how they are set up in the first place and how they are held to account. We want to examine these issues, and we thank the National Audit Office for its recent Report on the subject.

I want to welcome our witnesses. We have Alex Chisholm, permanent secretary at the Cabinet Office and chief operating officer for the civil service. The Department is responsible overall for the policy of dealing with arm's-length bodies and how they are established. Then we have some representatives of Departments with large numbers of arm's-length bodies. Tamara Finkelstein is the permanent secretary at the Department for Environment, Food and Rural Affairs, Antonia Romeo is the permanent secretary at the Ministry of Justice, and Cat Little is the director general for public spending and head of the Government finance function at the Treasury. Welcome to you all.

Before we go into the main session, I want to go to you, Mr Chisholm. One of your Ministers said in the House the other day that the use of private emails for Government business was under review by the Cabinet Office. Can you give us any information about how long that review is likely to take and what its scope is?

Alex Chisholm: Thanks very much indeed, Chair. It is good to see you this afternoon. Yes, that is indeed under review, and we are looking at changes in the technology, the different devices that are open to the use of Ministers, and what the practical implications are for their day-to-day working lives. Once we have concluded the review, we will certainly make a public statement about it.

Q2 **Chair:** Many moons ago, when I was a Minister, I had a BlackBerry that had only my Home Office email address on it. That was very secure. Is that something that you are looking at? Obviously, that might not happen in every Department. Is it something you are considering—not a BlackBerry, I guess, but some sort of handheld device or smartphone?

Alex Chisholm: Indeed, yes. Smartphones, absolutely.

Q3 **Chair:** Okay, so dedicated smartphones just for Ministers to do their business on.

Alex Chisholm: Yes. Obviously, what is strongly recommended is to use Government IT, because that is much easier to protect, from a security perspective. That is the most important point here.



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Chair: Okay, we will continue to watch this, and I know that other sister Committees are doing so as well. We will leave that there for now because we appreciate that you are in the middle of a review. We may have views on that, but now is not the time. I am now going to ask James Wild MP to kick off on the issue of arm's-length bodies.

Q4 **James Wild:** Thank you very much, Chair, and good afternoon, everyone. In the Cabinet Office code of practice, the then chief executive of the civil service said: "Arm's-length bodies represent an extension of the department's delivery, so really we should think about a department and its arm's-length bodies as a total delivery system." Given that, Ms Romeo and Ms Finkelstein, how do you approach the relationship between the Department and your ALBs in terms of managing, overseeing and working with them to deliver shared objectives?

Antonia Romeo: Thanks very much for having me today. In MOJ, we have 34 arm's-length bodies, of which five are Executive agencies. All of them are governed by a board, which is responsible for the day-to-day leadership of the body. The five agencies are incorporated into our overall MOJ HQ governance. As part of the MOJ group, the CEOs of the agencies will be represented on the executive committee and on our departmental board. For the other 29, we have something called the Arms' Length Bodies Centre of Expertise, which manages the stewardship of the relationship with those ALBs. They are conducting quarterly meetings to ensure that all requirements of managing public money are met in the governance arrangements of those bodies.

The final thing to say is that, as principal accounting officer, my responsibility for the risk, performance and so on of those arm's-length bodies is very well understood. That is a tightly governed process within MOJ. Overall, those risks are brought to the executive committee. We have an annual process whereby we go through that at exco level, and eventually it goes to the departmental board.

James Wild: Ms Finkelstein?

Tamara Finkelstein: We also have 34 arm's-length bodies—a slightly different set. We have nine executive NDPBs, four executive agencies, four advisory NDPBs, two non-ministerial departments and a range of other bodies.

How we manage them varies. You described the whole-delivery-system approach. Our major arm's-length bodies are each part of an outcomes system in the Department, led by a director general. They form a committee that looks particularly at prioritisation and risk. A number of them will be delivering the same outcomes. So, we apply the systems approach in that way.

But we also have a range of ways in which we hold them individually to account. Every body is sponsored, effectively, by a senior member of a policy team, who reviews their performance with them. Then our executive committee, on a monthly basis, will look both at risk and at performance.



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We also have a series of ministerial review meetings with chief executives and chairs as appropriate.

- Q5 **James Wild:** Thank you; that is helpful. You have more bodies on your list than I have on mine. Perhaps a bit later we will come on to whether the bonfire is continuing. As permanent secretaries, what level of interaction do you have with the ALBs? Do you have quarterly meetings, for example, or reviews with the chief execs and leaders of the most important by responsibility or budget? I will stay with you, Ms Finkelstein.

Tamara Finkelstein: I meet with them very regularly. The chief executive of the Environment Agency is part of an executive committee that meets weekly. All of the chief executives of our major bodies come to a weekly half-hour start of the week session. I meet with varying degrees of regularity, from two weeks to six weeks, with most of the chief execs, and a couple of the chairs as well. My DGs, who lead for them, meet between weekly and three-weekly with them. So, we meet very regularly.

Quarterly we have a session that I chair with all the major DEFRA group leaders as well. Our executive committee meets monthly on performance, and we include relevant DEFRA group leaders, depending on the issues. Most recently, in looking at performance impacted by covid and getting behind on some key indicators, we had the chief executive of the Animal and Plant Health Agency, who came to the executive committee for us to discuss the mitigation and recovery strategy. So, I engage very regularly through one-to-one and also group sessions.

- Q6 **James Wild:** Is there a similar picture in MOJ?

Antonia Romeo: Yes. We adopt a proportionate approach. As you know, the role of a PAO—a principal accounting officer—is to maintain the oversight arrangements, and we have a sliding scale. For example, two of our executive agencies are on the executive committee, and I will meet them weekly or every two weeks, bilaterally, anyway. Our other executive agencies, I meet very regularly. For ALBs it might be me doing that very regular meeting, or it might be one of my DGs, and that will depend on the level of risk and scrutiny.

Then, as I say, we have a specific team of about 30 people, which is the Arm's Length Bodies Centre of Expertise, that manages that stewardship, and in some cases they will be on weekly programme boards with the ALBs to ensure that we are properly holding to account and capturing the required information. All this oversight and the framework, very closely set in line with the Cabinet Office and Treasury guidance, will be aimed at ensuring that, for the high risk, we are very close, but for those that are less risk, or where it is important that we are not too close to those bodies, we have the required arm's length in that relationship.

- Q7 **James Wild:** Thank you. How long has that centre of expertise been up and running?

Antonia Romeo: Several years, I would say. I am pretty sure it existed the last time I was in MOJ, which was six years ago.



Q8 James Wild: That is helpful to know. I want to move on to framework agreements, which define the relationship and accountability structure. The Report highlights that, of the 10 framework agreements that were looked at, nearly half of them had not been updated in line with the Cabinet Office guidance. You will obviously be aware that both of your Departments' framework agreements date from 2017. Can you explain why they have not been updated in line with the Cabinet Office approach and when you expect them to be so, please?

Antonia Romeo: You're right that a number of our framework documents have not been updated, in particular for the non-executive agency ALBs. It is true that, out of 19 that we have in place, 13 need to be updated.

As to the question why they haven't been, I think it is because the Department was operating a system where, if it was working—and we manage risk, as I say, very closely—it might have been felt on some occasions that there was not a particular drive to update them. Obviously, that became particularly the case during covid. We took particular decisions: for example, with the Parole Board, a decision was taken not to go through a review of the framework document because we were doing so many other reforms and reviews of the Parole Board. We are currently doing a root-and-branch review of it.

However, I have just signed off a work plan to get all of our framework documents back on track. Of those 13, eight are already drafted, and we will be doing a number of those—sorting them out—before the end of the summer, and the remainder by the end of the year.

Q9 James Wild: Coming to DEFRA, I was thinking particularly about the agreement with the Environment Agency, which dates from 2017. Obviously, our Committee has taken a close interest in the actions, activities, focus and priorities of the EA. That's one that we would probably hope would be reviewed in the short term.

Tamara Finkelstein: Yes, and that is the plan. It is a similar position to MOJ, which is that we have seven that are in date, three became out of date last year and seven are more than four years out of date. It is a similar picture, which is that, while the arrangement and the relationship have been working, they haven't been the focus—particularly in the last year. However, again, we are also looking at working on updates to framework agreements over the coming year.

One of the reasons is that the huge change as a result of us leaving the EU has created shifts in exactly what some of our bodies are doing. That has sometimes led to us delaying updating framework agreements, but it is not good practice. We have just done an internal review with the EA more broadly around value for money, governance and a range of issues, which I think will form a good basis for us updating the framework agreement.

I recognise that the Committee has focused, correctly, on the EA. The relationship is very close and strong, in terms of our understanding around performance and risk. We have taken further action since the report from this Committee on some of the work we do with them around flood risk and



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flood defence performance. We will be doing the update over the coming year of all necessary framework agreements, including the EA.

- Q10 **James Wild:** You will be familiar with our close interest in chalk streams and rivers. One area where the Department may have a conversation is about the focus that the EA puts on bringing prosecutions and taking enforcement action, where there is a definitely a strong public perception, backed up by the figures—no doubt they point to the resources—that there have been fewer prosecutions.

Could I come to you, Mr Chisholm? In paragraph 9 of the letter you have sent to the Committee, you talk about next steps and service-level agreements between the ALBs and Departments. Is that a recognition that framework agreements are too loose in terms of the outcomes that Departments and ALBs are meant to be working together to deliver?

Alex Chisholm: We have indeed been looking at the relationship between Departments and the ALBs. There has been a lot of guidance produced by the Cabinet Office over the years, which Departments find—

Chair: Mr Chisholm, could you lean into your mic a bit? I know you have a croaky voice. It is not that; it is just the volume.

Alex Chisholm: I was saying that the Cabinet Office has issued a lot of guidance to Departments over the years to try to help them manage their ALBs. The feedback we have had is that that has been very helpful, and we have updated it from time to time.

One aspect of that is the framework documents. I have heard what colleagues have been saying, and it is fair to recognise that, in the context of Brexit and covid, it has not been an absolute top priority, but I was encouraged to hear from Antonia and Tamara that they will be catching up with those framework documents, which are not entirely up to date. The same is true for the Cabinet Office itself: we are up to date with our biggest ones, which relate to the EHRC, the UK Statistics Authority and the Crown Commercial Service, but some of our smaller bodies, with fewer than five people, have not been reviewed in the last three years, so we are part of the collective effort to catch up on that.

In terms of the value added in this process, obviously there is value in making sure processes are followed correctly. In my experience, those framework documents are particularly valuable in the early years of ALBs' lives. For some of our oldest ALBs, like the Civil Service Commission, which goes back to 1885, the extent to which they face new challenges every three years is probably quite low, whereas when you form a new body, such as UKHSA, or in our case, more recently, GPA, it is particularly useful to focus on the framework document, just to make sure that both sides—the Department and the ALB—understand what is expected of them and that things are working well. There is also a valuable public dimension to that in making sure people are accountable to Parliament for the ALBs.

- Q11 **James Wild:** Thank you, that is helpful. Ms Little, do you see framework agreements as the place where remuneration approaches from ALBs should



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be set out, or is that covered elsewhere in Treasury guidance? We have had discussions in the Committee about the remuneration policies that have been set out, particularly in the Department for Transport. Where do you think that is best managed from?

Cat Little: Good afternoon. Thank you. The framework template documents that the Treasury provides do not go into the detail of remuneration; we tend to look at overarching remuneration policy from a departmental perspective, but the two should be aligned and consistent. Of course, remuneration for individual appointments at public bodies are dealt with in different ways, depending on the public body and the type of appointment, but we expect remuneration policies to flow from our guidance through to the Department's oversight.

Q12 **James Wild:** Thank you, that is helpful to clarify. Ms Finkelstein, what issues, in any, do you encounter in managing ALBs, or is everything working very smoothly?

Tamara Finkelstein: We have a lot of forms of risks and issues that we are managing, but I would not particularly put them down as issues relating to how we manage our arm's length bodies.

We have a big and complex landscape of bodies, and we are taking stock. Our having left the EU makes a big change to some of the functions of our bodies, so we are taking a moment to have a look at that; we will look at what that landscape is and what it should look like within the context of the spending review. That is not necessarily about structural changes; it is about how we ensure that our priorities are best delivered, so it is about issues relating to governance, accountability, efficiency and so on. We are taking stock in that way. It is complex. My issues are broader and very much shared with the ALBs. That is why, as well as the almost hub-and-spoke approach that framework agreements and so on have, it is quite important to us to have these outcome systems, where we look at the groups of bodies that are responsible for delivering a challenging outcome and how we do that best.

Q13 **James Wild:** Okay. Is there anything you would like to add, Ms Romeo?

Antonia Romeo: As principal accounting officer, the absolutely crucial question is: how you get the proportionate oversight right? I say that because there is a whole range of bodies, from quasi-judicial bodies to small scrutiny bodies to really significant Executive agencies carrying most of the risk for the Department. It is crucial that you understand the boundary of independence with the ALBs, and that must be a shared understanding of the purpose and, as Tamara says, the contribution to the overall outcome.

Understanding the degree to which they are independent is vital. The Parole Board is great example of where you need absolute independence in making decisions about public protection, but that does not mean that they do not operate within the financial governance and within the financial risk arrangements that we need to set. With a large number of bodies, those judgments are the difficult thing to make, and that is the reason why the principal accounting officer is going to be heavily involved.



Q14 James Wild: Some people may have a different view on the desirability of public protection in the Parole Board, but that is for a different session than the one here today.

You have both talked about risk and managing the risks. What would you highlight as being the top three key risks that you are concerned about that your ALBs have presented to you? Perhaps I can come back to you, Ms Romeo.

Antonia Romeo: The absolute top risk at the moment is the operational consequences of covid. This is true across all our business—how we are keeping the justice system operating and how we are keeping our people safe.

The second is service recovery and the physical capacity to deliver it. That would be true in my business—in the prisons and in the courts—but also across all of the key areas.

If I am only allowed three, the third is capacity, staffing, including market capacity in areas where one is commissioning out provision from the market. Staffing, wellbeing, morale, retention—there are others, too.

Q15 James Wild: You talked, rightly, about the importance of independence, particularly, I would say, in your Department more than others. Given those issues are on your risk agenda, how are you managing them with the key ALBs, or are you requiring them to manage the issues and report back to you on how they are managed?

Antonia Romeo: A bit of both. The first thing to say is about risk and making those judgments is that some things are independent. Owning the risk on behalf of the taxpayer and the citizen is not actually something that we do at arm's length. Understanding that risk, holding it and collecting it at overall departmental level is absolutely crucial, which is why we collect information very regularly.

We intentionally allow the board of the arm's length body to oversee it. They are the people overseeing it, gathering that information, and managing performance and risk, but when they report that, we have a challenge process—the holding-to-account process, done by the aforementioned arm's length body centre of expertise—which will be escalated up. We then capture all those risks within our overall MOJ group risk register, and if we are concerned, we will get very specific on what we think needs to be done.

Q16 James Wild: Okay. Ms Finkelstein, do you have your top three?

Tamara Finkelstein: Let me bring those things together. The ALBs and their boards are responsible for identifying and managing risks, but they escalate them in number of ways.

One is through the outcome system committees that I talked about, which are led by my DGs, with one on environment, one on marine, one on food, farming and biosecurity, and through that to our executive committee, which meets weekly but discusses risk on a monthly basis. Then, the risk register will catch some of the shared and cross-cutting risks in particular.



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If I were to pick three, one is the risk of the impact of ageing IT on our resilience. That is a significant risk that we are managing, and we are managing it together.

Also, there is our resilience to concurrent emergencies—flooding, animal disease outbreak and a pollution incident all coming at once. That links to what Antonia also talked about, which is capacity and capability issues. We manage those together.

We have some specific infrastructure risks escalated from our ALBs that we talk about on our group risk register, for example the physical condition of our laboratories at the Animal and Plant Health Agency and the Herbarium at Kew. Our executive committee has talked about that in the last few weeks, and about ensuring that we have the best mitigations in place and the best plan going forward.

I do feel that through the relationships and processes we have, we have a handle on and a route by which we are seeing the risks and ensuring that they are managed as effectively as they can be. We also have group corporate services: our corporate services stretch across many of our ALBs, and that means, for example, for something like cyber-security, that is quite a good way in which we can manage the risk across the route.

Q17 **James Wild:** Thank you. From a departmental perspective—I think we will come on to Mr Chisholm and Ms Little's views on this a bit later—where do you see the role of the centre, of the Cabinet Office and the Treasury, in sharing a view of risk across all ALBs from outside other Departments and sharing those insights with you? Ms Romeo?

Antonia Romeo: First, the Cabinet Office set the strategy and the framework, so to that extent, they are the owner overall of the Government, looking across the piece at all these risks. They provide an important challenge function: we expect to be challenged on how we are managing risk, in the way we are challenged on how we manage performance and finance. They are also an excellent source of advice, so where we are not entirely clear on the best way to manage something, we tend to go to the Cabinet Office. They also play an important role in convening and therefore sharing best practice in terms of how organisations are managing risk. That is something that Departments really welcome.

Tamara Finkelstein: I would concur with that list. I mean, the framework is important—both from the Treasury and from the Cabinet Office—and particular bits of advice. On opportunities to share best practice, there is a risk practitioners' forum that we are part of which is also important, but I particularly concur on the convening power. The example I gave about ageing IT and cyber-security risks is one that I would note we very much escalated within our own group, but it has also very much been seen across Government, and there has been helpful convening power by the Cabinet Office.

The other place where it then comes together is in a spending review. With spending reviews, we are all effectively bringing our risks to the table in



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what we are talking about. That often leads to the Treasury alighting on themes, and that is a helpful process because where risks and resources come together, you are most effective at mitigating them.

- Q18 **James Wild:** Okay. As I say, I think we will come back a bit later to get the view from the centre: there are some questions about that, but at the moment, this is more about the departmental view of managing ALBs, so I want to carry on with that, if that is okay.

One of the big issues is around data and having oversight and insight to what is actually happening within the ALBs. Where do you see data gaps with your ALBs, and what action are you taking to close them? Perhaps I could go back to Ms Romeo.

Antonia Romeo: That's a really good question. Actually, in our case, because we have quite a good relationship and way of gripping a lot of what is happening with the data, it is less a case of not knowing what is going on than it is a case of not everybody's data matching. We have a big push in MOJ at the moment to bring different types of data together. Take court data, for example: the way data is captured currently—highly manually in some courts, not in others—leads to lags in the data. How that enables you to understand what is happening on a real-time basis, both for the organisation itself and for MOJ HQ, is one of the problems, and that would be even more the case with some smaller bodies.

We do a lot of work to bring this data together, but I cannot tell you that it is all perfect, for the reason Tamara said before. A lot of it is to do with legacy systems that mean we do not capture the data in the right way and the systems do not talk to each other. We are doing a big push on that at the moment to try to ensure that we can at least make sure we have, as it were, a single version of the truth, so that we really know what is going on.

- Q19 **James Wild:** Ms Finkelstein, when the Environment Agency gave evidence in our flooding enquiry, paragraph 10 of the Report stated that you basically take on trust the Environment Agency data without doing any quality assurance on it. Is that the right approach?

Tamara Finkelstein: I think that the best source of the data is where it is collected. There is a degree of trust in terms of ensuring that we collect the most useful data, but we need to make a judgment about where we need to make checks. As we said when we came to see you for that inquiry, we have developed an enhanced set of key performance indicators, particularly on the flood infrastructure programme, which we are to put into practice shortly for this new programme, and a new set of governance very specifically to delve into that. We will see if we need to do that in other areas. There are issues around data but, again, it is often about the systems of collection and matching—that is where I think the biggest risks are. There are real problems about legacy IT and interoperability, which I think is the biggest challenge to our data.

There is then the challenge of the skills and capabilities, both within the ALBs themselves and within the core Department, to ensure that we know what we ought to be looking for and how we ought to scrutinise. We do that



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well in places, but there is more we can do to do that better. We have made huge strides in the scrutiny we are providing through our executive committee, to ensure we are looking at the most important bits of performance data, but there is always more we can do.

- Q20 **James Wild:** Thank you. You both mentioned interoperability and legacy IT. I should declare an interest as a former special adviser in the Cabinet Office, where we looked at some of those issues. To what extent do you see, for example, data on courts and caseloads and making that interoperable and working together an MOJ-ALB discussion? Do you see a role for the centre in terms of mandating those standards?

Antonia Romeo: I don't know about mandating. As principal accounting officer I am responsible for making sure we have the right data and that it is working in right way. Obviously, in order to make systems interoperable and fit for legacy IT, inevitably that will involve compensation, not least from the Treasury, because it is part of the SR. I would also expect to be challenged and scrutinised on it. This is about functional leadership, really; if there are standards on how we should be doing that, I would want to follow those standards.

The important thing to understand is that the principal accounting officer has that responsibility, so it is not something that can be pushed off or assigned to the centre; it is our responsibility to make it work across our entire group. Then we work with the centre, both being challenged but also seeking support to ensure that we can get that into the right place.

I should say that this is not even just an ALBs problem; it is a problem that almost every Department has with how it is using its data, even within the HQ body. These are the questions that we are tackling all the time.

- Q21 **James Wild:** Given the legacy IT issues are well established, a question for you, Ms Little: would the Treasury expect to see a bid from each Department that reserved some of its SR settlement to help sort out these issues, rather than it being a recurring theme?

Cat Little: Yes. Without inviting any more bids than absolutely necessary, the simple answer is yes. As you say, it has been a long-established cross-cutting theme across Government. Both Alex and I have convened several sessions to talk through how we go about collecting data, how we prioritise spend and where spend on legacy systems most interacts with new investments in new systems going forward. We have done a lot of work together and I am expecting there to be cross-cutting and departmental bids. Of course, nothing I say here will prejudice the outcome.

- Q22 **James Wild:** No, of course. I think our Committee would be supportive in general of those being looked on favourably. You have both talked about how you are monitoring the centres of excellence and the teams that are looking at the ALBs. How are you ensuring that those sponsorship teams have the capacity—you are talking about quite a lot of bodies here—and the capability to perform that crucial role effectively, to make sure they are all one part of the delivery system? Can I start with you, Ms Finkelstein?



Tamara Finkelstein: I'd say that at the minute we would describe our ALB management as much broader than sponsorship. As I have described, we have our group corporate services, so the FDs of different ALBs are directly line managed by the group FD. We were looking at it and we have about 13 FDs on sponsorship itself, but a much broader range of people are involved in relationship management and the scrutiny and challenge of ALBs. I would describe our system as being much more towards that end of managing the ALBs as a part of our system and less the traditional hub-and-spoke sponsorship model.

Having said that, I am quite keen to potentially shift us a little, so we are looking at developing that. We don't really have a strong, large central team, in the way that Antonia described, and we are thinking of building a more central team that would help to upskill some of those traditional sponsorship capabilities. We are also trialling a stronger relationship management team on environmental governance to do that more.

We do have those skills. The skills that we are talking about on relationships and on scrutiny of performance are core policy and delivery profession skills. I think we have them throughout the people who are dealing with our ALBs in the core, but we are tipping a bit more towards developing that stronger, more direct sponsorship capability.

Q23 James Wild: Sticking with you for a minute, clearly scrutiny challenge is an important part of sponsorship, where bodies are getting it wrong. How do you manage poor performance in an ALB? Do you have an example of where that has happened and the action you have taken to put it right?

Tamara Finkelstein: Yes. The key way is through the direct senior team sponsor and the department body, in the first instance. Some of the key agencies effectively have direct general line management. As was mentioned earlier with poor performance, we are getting behind on a number of performance areas as a result of covid. For example, we are looking at the way in which we scrutinise key indicators of bovine TB, as I mentioned, to get that back on track, through a combination of ways, including the director general having weekly meetings with the chief executive, looking at the data and agreeing a recovery strategy, which would be discussed at both the executive committee and at the departmental board, to see what that plan was and to track whether that gets back on track.

To take another organisation, there have been questions around the Rural Payments Agency's performance in the past, but we have had a strong improvement in performance. Most recently, 98% of basic payments have been paid on time, which is a real improvement. That came through a direct relationship between the DG member of our executive committee and the chief executive, and engagement from the Home Secretary as well, looking relentlessly at performance data and the plan to get back on track, and scrutinising and challenging at a senior level.

Q24 James Wild: Those are helpful examples. Ms Romeo, do you have that capability and capacity within your teams, and can you give us similar



examples of where poor performance has been brought back on track, please?

Antonia Romeo: As I mentioned, I have been very fortunate to have the centre of expertise, which is 26 full-time people whose job it is to make sure that we have in place the right arrangements for holding to account the right risk. They are constantly sweating that system. They are doing the partnerships, they are doing reviews, they are doing public appointments. That capability that exists in the Department is now quite mature. Like for Tamara, this could exist separately from the actual sponsorship role. For example, if you take CAFCASS, we hold that organisation to account and scrutinise its performance, but also the policy team will be looking at the overall position of the family courts, for example, because as you mentioned at the start, everything is a system. In the justice system, all these ALBs are operating within the same system, so policy needs to help set that overall direction.

Although this is not an example of poor performance exactly. A really tough delivery challenge that we had to get alongside right from the start was Gov Facility Services Ltd, which came into being when Carillion collapsed and is responsible for the maintenance of 49 prisons in the south. You can imagine how important that is to us, because keeping that maintenance going and keeping those cells in place is absolutely crucial. That relationship and that scrutiny is done by my chief financial officer, who regularly meets the leadership of GFSL to ensure that— They inherited a big backlog from Carillion, and the outstanding caseload built up further during covid. They are now getting that back on track, and they are working very closely with the CFO and his team, so it is an example of shared working, essentially.

Q25 **James Wild:** Thank you. Mr Chisholm, do you think other Departments should look to emulate that model in the MOJ of having 26 people in a centre of expertise?

Alex Chisholm: We have been looking at sponsorship models across government over the past few weeks. Generally, we have been quite encouraged by what we have found, both in the quality— We surveyed all the chairs of ALBs, and I think 80% of them said they felt that the sponsorship they were getting from Departments has been well done, which is encouraging. I think it is natural to see a certain amount of diversity across Departments, because they have very different levels of responsibility. The two Departments we are with today, plus DCMS and BEIS, have a lot of ALBs that are a big concern; in some other Departments, they are not such a big deal. I think the overall direction of travel is to develop specialist skills in sponsorship, and to try to embed those in relatively centrally located teams within Departments, to try to make sure that they build up that kernel of expertise and that they learn from doing over time. In that sense, I think the model that the MOJ has developed is strong. I listened with interest, as you did, to what Tamara was saying about how DEFRA are looking at whether they can make some changes to optimise their own approach.

Q26 **James Wild:** A final one from me on this question. On page 38 of the



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Report, paragraph 3.26 highlights priority areas for the Cabinet Office for the future, including approvals, monitoring, enhancing capability and consistency and data. Mr Chisholm, on page 2 of your letter, you also drew out those themes, on the reform of public bodies, talking about governance, gateways, data and fiscal levers. Is there anything further you would like to add, Ms Finkelstein or Ms Romeo, from a departmental perspective, about where the Cabinet Office and the centre can most usefully focus on those? You have covered data and things in some detail already, so do not feel the need to rehearse that if you have already covered your key points.

Antonia Romeo: I would like to add one thing. The third bullet point says: “how to enhance the capacity, capability and consistency of ALB oversight”. To my mind—we are happy to play a full role in this—that collective sharing of how to do it and capability building is probably the single most important thing. Doing this, and being able to manage that process, is a particular skill. That is the sort of area where we would welcome Cabinet Office involvement. I should also say that the templates and things that the Treasury produces are obviously crucial in helping us to get this right across the board.

Tamara Finkelstein: I am in a similar place. I know it is in there, but having the framework and some expertise at the centre around that is critical, because you often can only do this from time to time—deciding on setting up a new ALB—so that is crucial, as is making use of that. Then it is the sharing of best practice, so facilitating that best practice, on which there are some ideas in the programme for the Cabinet Office. Developing those I genuinely think would be really helpful, to have more sharing of best practice—and spotting those issues, like we talked about on IT, where some convening would be helpful.

James Wild: Great, thank you very much.

Q27 **Mr Holden:** Mr Wild has dug a little into the departmental experience, but I think we want to move on in this section to having a look at setting up ALBs, and the risk framework around them. First, to Mr Chisolm, what are your respective roles in relation to them in determining risk appetite, and where that appetite comes from? That was something, in paragraph 3.9 on page 28 of the Report, that seemed to be a touch varied and lacking. In fact, the Report says: “There is currently no function in the Cabinet Office that is responsible for liaising with the GFF on cross-departmental or ALB risks.”

Alex Chisholm: Thank you very much—I am just checking the reference. Let me make a couple of points about risk management, because I think it is very important, and it is something that, as you say, came up in the NAO Report. First of all, it is very important to recognise that the big risks here do arise within the departmental frame. Just to give a couple of examples, remember that I was previously permanent secretary at BEIS. On the huge risks at BEIS, for example, around the nuclear estate, the nuclear legacy there, and offshore oil and gas development, those issues were very clearly managed by BEIS and its ALBs. It was not the case that either the Cabinet



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Office or the Treasury were second-guessing the judgments of the Secretary of State, the permanent secretary there, or the relevant board. I think that is where the big risks are.

The risks that we try to focus on at the centre are those that are genuinely cross-cutting and ones that can only be addressed at the national-type level. To try to describe a few of the ways in which we do that, obviously the national risk register, which is produced by the civil contingencies secretariat, and the national security risk assessment are documents produced, and exercises that are very much led, by the Cabinet Office. Obviously, we have dragged from across the whole of Government the best information available for that, but we do play the lead role there.

Secondly, every quarter now in a new and enhanced process, which we do jointly with the Government finance function led by Cat, we look at all the risks that are produced collectively across the system. They are synthesised and summarised, and we look for patterns in those and for new emerging risks, and importantly we try to look at what actions we need to take in addition in response to that. That is through the structures of the civil service board, among other things.

Thirdly, I would like to highlight how the monitoring of this risk is very purposive. Again, sometimes you identify a risk that you can anticipate. You heard earlier the description about Carillion, for example. That was a good example of one where the Cabinet Office had foreseen that risk and had convened Departments. We had, I think, 98 different contracts across different Government Departments, including many ALBs, and put in place some contingency plans, so when, in fact, Carillion did get into financial difficulties and ultimately went into liquidation there was a well-managed plan for managing that and it did not disrupt public services.

Those are some examples of the role of the centre in relation to risk, but one of the things that I was very keen to get across in the course of this hearing is that that is not the same as removing from Departments or ALBs responsibility for their own risk, because it would be very harmful if people felt that they could just chuck risks upstairs to the Cabinet Office, so to speak, and then that was off their plate. That is not the case at all. The main risks are managed within Departments.

Q28 **Mr Holden:** Ms Little, will you comment a bit on the patterns of emerging risk that you are seeing at the moment?

Cat Little: Yes, and there is a lot of consistency with what Ms Romeo and Ms Finkelstein have already described. My team produce the quarterly collated report that looks at themes—it also takes functional risks—and the core themes are certainly around IT, including cyber-risk and legacy IT. We have a number of financial risks. Those are obviously things that the Treasury more widely monitors with Departments on an ongoing basis. We also have a number of delivery risks, both in programmes and in overall delivery of made-policy outcomes.



That, as Alex said, has been coming to the civil service board on a quarterly basis. As we wrote to you just last week or the week before, we have set out the things that we know that we need to do to take it to an even greater level of maturity. In particular, we want to make sure that we increase the levels of professionalism in risk management, that we have greater leadership capacity and that we do even more of the analysis and support to ensure that all parts of Government have the support to manage risk management and risk appetites better.

Q29 Mr Holden: Leading on from that, with the Carillion example, there were concerns that Carillion had so many contracts in the first place, rather than, "It's all very well looking retrospectively at the situation, but what about leading up to it?" I want to move a little further and go a bit deeper. According to the NAO Report at paragraph 5, we are looking at "830 central government public bodies operating in the UK and the Cabinet Office identified 295" arm's-length bodies. Part of the issue, Mr Chisholm, is that there are so many of those bodies, is it not? It looks incredibly messy from the outside, so how can you keep a handle on what is going on?

Alex Chisholm: It is important to distinguish between the ONS—Office for National Statistics—list of public bodies and the ones that we are working off. I should say that the Cabinet Office definition, which limits that to 295 bodies—not 830—only recognises three different types of central Government bodies: non-ministerial departments, of which there are about 20; executive agencies, of which there are 39; and a larger number of non-departmental public bodies. Those are the three categories that we focus on, and that is the same definition as the NAO has accepted and used in its reports, so we are level pegging there.

If you are wondering about the other bodies, which we do not look at—so, the difference between 830 and 295—they cover a whole litany of different types of bodies. For example, lots of bodies are in the devolved Administrations, and there are some higher education bodies, some tribunals or some special-purpose type vehicles.

From the point of view of focusing, we focus very much on the 295. That is big enough. Between them, they employ something like 300,000 people and spend more than £200 billion, so there is a lot there. Within that, we focus particularly on the larger bodies, of which there are about 100. They account for most of the expenditure, most of the people, most of the risk and most of the underlying benefit.

Q30 Mr Holden: Going back to your previous example, Mr Chisholm, obviously in the end they all come back to central Government taxpayers' money. That is meant to be co-ordinated by the Cabinet Office. The issue with Carillion was that it got into the mess in the first place. I do not think that anyone is denying that there was a reasonable reaction by the Cabinet Office to that, but if you are not overseeing all those departments and extended arm's length bodies, how can you ensure that you are mitigating that risk for the future?



Alex Chisholm: It depends which types of risk we are trying to deal with. The reason why we were particularly interested in and responsible for the Carillion risk is that lots of different parts of Government had their own arrangements with Carillion. We needed to look at the collective picture overall, which we were able to do before the company got into distress, and that was able to provide a degree of reassurance, as well causing contingency planning for what would happen in the event that the company got into difficulty.

In most cases, Carillion's contracts were joint and several, but we went through contract by contract, with the help of the particular Departments and ALBs to see what the actual effect would be in the event that the company failed. That was a carefully managed process, and that is something that we do across all of the major public service suppliers—again, through the Cabinet Office markets and suppliers team. They do that right across the piece.

We do look at risk. Particularly over the last year and a half we have been looking very carefully, obviously, at the knock-on impacts of covid on the financial worthiness of some of these organisations and at the steps that they were taking in a very carefully joined-up process with ourselves using the Crown Reps system, in many cases to raise additional funds in order to improve their financial stability. We have also focused on what happens at times of big change when they have been involved in big mergers or takeover-type activities. That is an actively managed programme in the Cabinet Office, because only the centre can see the composite picture of risk, and that is why we recognise a particular responsibility there, but that is not true for most of the risks. If you look at the individual departmental risk registers, most of those will be squarely the responsibility of departmental—

Q31 **Mr Holden:** I can understand that. You talk about active management, but what do you see as the risks of Government delivery via these bodies if you are not more actively managing them at the moment? You have set out a framework via the Cabinet Office, but you are not really checking up on whether these guys adhere to it. The Treasury have some form of oversight at a financial level, but what we on this Committee really want and what we are really looking for—this is what we do—is to ensure that public money is well spent. In order to achieve that, we need to know that the Cabinet Office is actually driving these bodies from the centre. What do you now perceive as the risks in how that public money is spent?

Alex Chisholm: Again, on the responsibility for that, let us take an example of one of the ALBs. The biggest one is the NHS—NHS England. The responsibility for managing NHS is squarely with the chief executive and the board of NHS England, and the responsible Minister very clearly is the Secretary of State for Health. It is not the Cabinet Office, and I would not encourage this Committee or anybody else to think that you should look to the Cabinet Office to ensure that the NHS spends its money correctly.

Q32 **Mr Holden:** Just to go into that a little bit, you see here the inconsistency between you guys being a friendly overseer and the responsibility of the



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accounting officers and the monitoring frameworks. Ms Little, how can the Treasury keep a grip on costs if it does not monitor all of these bodies centrally? We have seen examples of costs, particularly in arm's-length bodies—I think of some of the MOD schemes we have been looking at—getting totally out of hand. In the end, the buck stops with the Treasury.

Cat Little: Absolutely, and I really must stress the importance of the accounting officer framework and its important role here, because, to your point, we could not possibly scrutinise, oversee and assure every single risk in every single public body, which is exactly why we appoint principal accounting officers to have that specific responsibility on our behalf. Having said that, as the Chair said in the opening remarks, public bodies account for around 30% of overall public expenditure, so, as part of our normal work with Departments and public bodies, we spend a vast amount of our time scrutinising, assuring and being comfortable with the way in which accounting officers discharge their responsibilities. That happens through both an annual assessment and through regular dialogue with departmental principal accounting officers. So, I assure you it is something that the Treasury takes very seriously with our principal accounting officer colleagues, and we have many mechanisms for making sure that there is oversight, and levers to take action where we think it is necessary.

Q33 **Mr Holden:** One of the issues that we see here and when looking through the Report is just how fragmented and overlapping some of the arm's-length bodies are, and that is a real concern. Why is this landscape, even though there has been a reduction to some degree, still so fragmented, Mr Chisholm, if you are leading from the Cabinet Office and trying to keep these things in line? There seems to be so much overlapping work even within Departments and the centre.

Alex Chisholm: There certainly shouldn't be overlapping work. It is a complex picture, but it should make sense in its join-up. That is really the whole thinking behind the public bodies reform programme, which has been running for 11 years and has progressively moved through the stages. In 2010 to 2015, we went from 906 to 610 public bodies. We were down to about 500 by 2016, and by 2019 it was 295, so there has been some consolidation and simplification of that landscape, very much to your point.

The ongoing programme of what used to be called triennial reviews was extended to become tailored reviews in 2016, and that applies to all bodies within that—NDPBs, Executive agencies and non-ministerial Departments. That provides exactly the stimulus that you are calling for. Does this function still need to be done by Government? Is it being done effectively? Is this body set up for success? Those are exactly the type of fundamental, important and searching questions that those tailored reviews are designed to ask.

Q34 **Sir Geoffrey Clifton-Brown:** Good afternoon, everybody. I will start with you if I may, Mr Chisholm. Paragraph 3.3 in the Report, on page 25, says: "In 2017, the Cabinet Office produced a Code of Good Practice for how departments and ALBs should work together"—excellent. You then, in your letter of 23 June, tell us: "CO has taken steps to deliver greater simplicity



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in the ALB landscape”—that is the point that my colleague, Mr Holden, was making just now—in response to the same report. Can you tell us what steps you have taken to make the ALB landscape simpler since 2017, because, as Mr Holden was making out, it still seems to be remarkably complicated?

Alex Chisholm: It is still a complicated landscape, and I recognise that, but that is not surprising. When you think about the wider economy, which we have talked about on other occasions, there are 5.5 million firms out there, and nobody says that is too many or too few. We are covering a very large area. This is the whole of the central Government system, and as well as central Government Departments, we see a lot of merit in having discrete bodies that are responsible.

In some cases, like the Executive agencies, it is because they are delivery bodies and have been able to give a particular focus on a particular activity, and that has shown itself over the years to be a good way of getting better and better at that. Then there are non-ministerial Departments, in recognition that there is a small category of things that need to be separated from Ministers—HMRC, the National Crime Agency and the Serious Fraud Office. Organisations of that kind are separate from Ministers but are still substantial Departments. Then there are non-departmental public bodies.

We take the opportunities to try to retire bodies from time to time, sometimes by consolidations. You will remember that, in a previous life, I was the chief executive of the Competition and Markets Authority. That was a consolidation of the Competition Commission and the Office of Fair Trading. There have been other such occasions when we have been able to absorb new responsibilities into existing bodies. We have been doing that quite a lot as part of the EU exit process. We have been asking very carefully whether we need to create a brand-new body or whether this is something we can do within the purview of an existing body.

Another example is the Subsidy Control Bill, which has just been put forward to Parliament. They looked at whether you needed a completely separate, new body to do that. They decided that they didn't need to do that, and they have effectively added the subsidy advice unit to the responsibilities of the Competition and Markets Authority. That is also true for a number of other bodies that have been looked at and made necessary by the EU exit process. We have added—

Q35 **Sir Geoffrey Clifton-Brown:** I think we have got the gist of that, Mr Chisholm. Thank you very much. At the bottom of page 2 of your letter, you say: “My team has already commenced work to map the existing ALB sponsorship landscape and will then make recommendations to Ministers on appropriate next steps. Next steps could include, for example, service level agreements between the ALB and the department, new standards for sponsorship and developing a new learning and development offer.” What does that all amount to, and when is it likely to be completed?

Alex Chisholm: We have been doing that in the last few weeks. I mentioned earlier that, so far, we have been quite encouraged by some of



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the feedback we have been getting. We are a little bit loth to over-define it because of the natural heterogeneity between Departments and their ALBs. In some of the feedback we have had, people say, "We would welcome a service level agreement." Other people have said, "Actually, hang on. I don't really need that. We have a very effective relationship at the moment." Something that you may intend to act as a floor can become a ceiling in practice and can get people a bit, "I'm not doing that, because it is not within my service level agreement."

We do want to keep some flexibility, but where we think there are performance issues, then obviously service level agreements can be a way of trying to work at those, especially where new things are being established. The Government Property Agency, for example, and before it the Government Legal Department, made good and effective use of service level agreements when they were making their new agreements with clients, and that is very appropriate.

On the standards for sponsorship, again, learning from the good experience of MOJ, BEIS and other bodies who have really specialised in sponsorship, we are keen to try to make sure that is shared across all Departments, including those Departments with relatively few arm's-length bodies, and that people see that as an area where they could actually build up their skills—that there is a degree of professional excellence that you can acquire in the skills of sponsorship. That will obviously be reflected in our learning and development offer.

- Q36 **Sir Geoffrey Clifton-Brown:** At paragraph 3.7, page 28, you say your "current approach is not to monitor and understand how departments are overseeing their ALBs. It considers this to be the responsibility of departmental accounting officers"—fair enough. But, in your oversight role, ought you not actually to seize on individual examples where, clearly, things have been going wrong and the individual departmental accounting officer is not holding that ALB to account properly? Isn't it the role of the Cabinet Office, and indeed even the Treasury, if public money is not getting value for money, actually to seize on the very worst examples and try to investigate what is going wrong?

Alex Chisholm: Up to a point. The accountability for weak performance in an ALB does go up to the principal accounting officer and the Secretary of State in the Department—and, indeed, through them, to Parliament. When I was at BEIS, you rightly questioned me many times about the performance, for example, of the Nuclear Decommissioning Authority in relation to the Magnox contract, and it was clear that I was responsible to you, even though they were an ALB within BEIS. Those things are not actually the responsibility of the Cabinet Office.

But to your wider point, obviously we want to learn as much as possible from both good examples of excellent practice and poor examples, to make sure that people learn across the system. Yes, that is something that we want to be sharing.

- Q37 **Sir Geoffrey Clifton-Brown:** We are spending £265 billion a year on



these ALBs. This is a big item; it is probably one of the biggest items that your Department has to oversee. Would it not make sense, on two fronts, for you to have a small staff, further staff—not too big a staff, because otherwise this Committee will be investigating you—to provide more expert advice, particularly on setting up ALBs, across the board, which perhaps even the departmental officials would not be able to provide, because you would be doing it across every Department? Would it not make sense to set up some very small resource to do that?

Alex Chisholm: We do have that team. It is a team of 27 people. They do provide exactly that service, particularly when setting up new bodies, and for the very reason that was mentioned earlier: you don't do it very often—I think Tamara made that point—so it is sensible to have a central team to help to partner with the responsible Department. I know that when DEFRA, for example, was setting up the Office for Environmental Protection, as well as work they did within their own Department, they drew heavily on the guidance and advice available from the centre, and expressed thanks to us for that advice.

There is a pretty clear rulebook—a very clear handbook—which says how you should set up a new Department, how you do your business case and what all the considerations are. There is a checklist of issues. It is really very hands-on and friendly, but it's not just a published handbook; there is also a group of people. There is a kind of support network of all the people working on sponsorship work; they help to support each other and to share best practice.

Q38 **Sir Geoffrey Clifton-Brown:** That is the carrot, but maybe there should be a little bit more of a stick in this. We have discussed effective Government regulation, and indeed my colleague Mr Wild mentioned in his questions that data is absolutely key in all of this. Should there not be a new system of annual returns from every ALB requesting certain data, so that you as a Department and the departmental heads could see that there was consistency of performance between all these ALBs and very quickly sift out those that were not actually up to scratch?

Alex Chisholm: Yes. There are two different types of data. There is the data that we collect every year for the public bodies directory, which is published. It is an extensive data-collecting operation—financial and non-financial information. It is all published and very available. There are two drawbacks with it. One is that it takes a while to do. When we published the last one—

Q39 **Sir Geoffrey Clifton-Brown:** Let me interrupt you there, Mr Chisholm. Once you had set the system up, it would not take a while to do. It could last for many years to come, and it could perform a useful function.

Alex Chisholm: Well, the system has been running since '99, I think, but it remains a slightly manual operation whereby we ask for this data and put it all into a gigantic spreadsheet. That is not satisfactory. Therefore, we want to move that to a more automated system, which will make it much easier for that key public data to be available. That is the first thing.



Secondly, it is about transparency and accountability—in other words, it has lots of very useful data in there about how much money is spent, who the directors are, when it was last reviewed and so forth. It is extremely accessible, and I would encourage you to take a look at it. But it does not really provide performance data, because with performance data, you have to be able to compare like with like. For that, it is really about benchmark data. Being a little self-critical, where we look back and are not pleased with our work, we say that we have not done enough to provide really good-quality benchmark data. I know that, sometimes, that data is available, and sometimes it is between the ALBs. When I was at the Competition and Markets Authority, we compared all our key data with that of other economic regulators, which were the most comparable group, and that was extremely useful. But you are right to say that the Cabinet Office and Treasury could be doing to promote the exchange of relevant benchmark data, and that would help all of us drive stronger performance.

Q40 Sir Geoffrey Clifton-Brown: Ms Finkelstein, you have twice referred to out-of-date IT systems. Can I ask you to link your answer to a question that I have just asked Mr Chisholm? How can you obtain better data from all these ALBs? You have twice mentioned that in answers today. Did you have in mind the RPA, in terms of outdated IT data? What did you have in mind?

Tamara Finkelstein: We have issues around lengthy IT systems throughout the group. We have good management information, but it could be better, and we have risks around that IT. I would greatly support any work that could be done around matching up relevant groups of ALBs, to allow some of that benchmarking. There is a role that the Cabinet Office, with support from people in Departments, could do to spot where benchmarking would help. Our ALBs are all very different. If you take the RPA, they are a payments agency. There is a set of things that they do that we could probably benchmark really helpfully across some other ALBs, and the help of the Cabinet Office with that would be really useful. I think that direction of travel would be useful.

Q41 Sir Geoffrey Clifton-Brown: The problem with the Rural Payments Agency—I declare my interest as a farmer—was that you were having to accept data from Europe under the common agricultural policy, which was changing, and you were having to catch up with the IT systems. Now you are free of all that, presumably you ought to be able to produce new IT systems for the RPA, and it should be able to be efficient. Am I right in that assumption?

Tamara Finkelstein: The IT systems we were using were, in the main, our own systems. Along with the systems, some of the issues that we were also experiencing were around some of our own performance around the way in which we were getting payments out speedily, and we have hugely improved that. The challenge for us now is, as you say, in the opportunities that we have through the agricultural transition to change the way in which we are directing our payments. While we are ensuring that we are directing those and creating the right incentives, we also need to get the money out the door effectively and in a timely way. That is a big challenge for our



current delivery programme on future farming, and it will be at the heart of it.

- Q42 **Sir Geoffrey Clifton-Brown:** Ms Romeo, on legacy IT systems and data, is there more that you need to do with your ALBs?

Antonia Romeo: Yes, there is a lot of work that we have to do. I would separate out the legacy IT system issue, which is one thing that we have to tackle. We have a lot of technical debt in the Department, but actually data, joining up the data and better forecasting is all an ongoing piece of work that we have to do.

It might be a good moment to mention that the other way, of course, that we work with the Cabinet Office across all these issues is via the functions, so there is another way. It is not just the central control over the principal accounting officer, because I believe that we, as principal accounting officers, need to take that responsibility—ourselves—to Parliament extremely seriously. In terms of managing those resources it is working with the functions, be that on data and analysis, or be it the digital teams or the commercial teams. They are also working with us all the time, so it is a partnership, but in that respect, we are also being scrutinised, I think, by those functional teams.

- Q43 **Sir Geoffrey Clifton-Brown:** Final question from me at the moment, Mr Chisholm. I don't know whether you have seen the evidence from **Jim ????**. Basically, boiling it down, it is parliamentary oversight of Government functioning. He makes the point that actually farming out Government policy to ALBs, Next Steps agencies and non-departmental organisations tends to give them a life of their own, and makes parliamentary scrutiny of Government function much more difficult, and it makes, of course, them liable to judicial review, so that policy is being made by judicial review, rather than by Parliament, over the functioning of Government. When you are considering Next Steps agencies, ALBs and non-departmental organisations—setting up new ones—is that something you consider: whether it actually would be done better within a Government Department rather than outside?

Alex Chisholm: Yes, absolutely, and indeed before we even get to that: does it really need to be done at all by any part of the state? There is a very elaborate process for doing that. It is briefly touched on in the NAO Report, but it was followed in the example of the Office for Environmental Protection. They did look first of all at whether it was something that the state really needed to do, and whether there were market mechanisms there. If it had to be the state, what is the type of body, etc? All of that gets looked at very hard.

As you are aware, there are three tests that are applied by the Cabinet Office, and have been applied for a number of years, two of which relate to independence from Ministers and to being able to show that the way in which the data is produced is absolutely separate from any possibility of political motivations. The other is around the kernel of expertise, so those



are the three criteria, and you have to satisfy one of those to have a chance of being a new arm's-length body.

The reality is that we are actually not creating very many arm's-length bodies. What we have is a big stock of arm's-length bodies, and some of those are, I would say, famous much-loved national institutions that have been going for a long time, like the NHS, the British Museum, the Met Office, Ordnance Survey, the Charity Commission and the National Archives. I don't think that we need to be particularly worried about trying to consolidate those into new forms or whatever, but where we do have a bit of a focus is on—*[Inaudible.]*—smaller bodies, some of which are less efficient, to be able to support themselves. We are very wary about creating small bodies with just a handful of people where that creates a particular kind of efficiency challenge.

To the point that was made from a parliamentary accountability perspective, these bodies are still absolutely accountable through Parliament and through Ministers. The body that is particularly, I suppose, separate from ordinary Departments is a non-ministerial Department. That is therefore the rarest and the hardest to create, because we recognise that that is the furthest, if you like, away from Ministers, whereas at the other end of the spectrum executive agencies are absolutely still part of Departments from the point of view of legal responsibilities and as an entity.

Sir Geoffrey Clifton-Brown: Thank you, Mr Chisolm. I hope that you make a recovery quickly.

Q44 **James Wild:** To pick up on what you were just covering, Mr Chisolm, the Report looks at 24 business cases for ALBs, and the Cabinet Office guidance is that it should be an absolute last resort to be creating new bodies. Nearly 40% of the business cases submitted failed to seriously consider a long list of possible alternatives. Why is that acceptable? Why were those business cases not rejected and authors told to go back and look seriously at a long list of alternatives?

Alex Chisholm: I agree that, in principle, in an ideal world, all those business cases would be thoroughly complied with. That is not only us in the Cabinet Office but the Treasury as well. We recommend that people follow full Green Book process—the five-case study, with a proper examination of the case for change, the economic case, the commercial case, the financial case and the management case. There are some outstanding examples where the whole thing was done properly.

However, I recognise that, sometimes, a new body is put together under conditions of relative stress. A good example would be UKHSA, the new health security agency, which is itself a kind of consolidation of Public Health England, NHS Test and Trace and the Joint Biosecurity Centre. It is true that that did not have a comprehensive business case process in its establishment; an outline business case was put together before it was launched on 1 April, but not an absolutely comprehensive one. The justification put forward by sponsors, which we accepted, was that, in the context of the national pandemic, it was very important that this new body,



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with all its new credibility and enhanced powers and operations, should be immediately in effect, and that we should not allow the best to be the enemy of the good.

- Q45 **James Wild:** I will be corrected if I am wrong, but I do not think that that is one of the 24 case studies that the Report looked at, of which 40% did not do what the OEP process led to, which was to look rigorously at lots of alternatives—although, ultimately, it ended up as an ALB. A quarter of business cases did not provide a cost-benefit analysis. Again, how many of these business cases were rejected for failing to either consider alternatives or provide a cost-benefit analysis?

Alex Chisholm: It is right to recognise that a lot of the business cases are approved in the end after considerable work and improvement, and conditions are often attached. Some of those conditions are that it is rejected out of hand. In other cases, the condition is to make changes over time. It is an interactive process involving Cabinet Office and Treasury Ministers. If the invitation from the Committee is to be more stringent in future still, and for only relatively few new arm's length bodies to be created, we will certainly take that on advisement.

- Q46 **James Wild:** Given the policy position of the Cabinet Office and the Government, they should be an absolute last resort. It does not seem particularly rigorous if 38% of the applications that come through do not look seriously at alternatives to having a last resort option. That process needs to be toughened.

Ms Little, from a Treasury perspective, if no cost-benefit analysis is provided, should the Treasury not be more robust in pushing this back to Departments? My experience of business cases for many projects was that they would be kicked back to Departments, rather than having an iterative process or approval subject to some conditions. Once a body has been established, it has been established, and it is too late to look at alternatives to it.

Cat Little: I obviously agree with the sentiment there, but there are occasions where we establish bodies on an interim basis. The UK investment bank would be an example of that. We have announced UKHSA, but it will not come into full formation until October. There are very rigorous conditions for those two examples. As Mr Chisholm said, both the Cabinet Office and the Treasury said they wanted to see the full cost-benefit analysis and the full business case complied with until we give the final go-ahead decision. It really depends on the type of organisation and the reasons for bringing it into existence. The UKHSA, an organisation that is bringing together previous responsibilities of other organisations, is not actually asking for any new money, and its sole purpose is not to drive benefits. It is there at a really important point in the global pandemic to help us be better prepared and to protect the public going forward. We consider these on a case-by-case basis.

I thought that it might be helpful to give you one example of a rejection recently. There have been a whole host of bodies that we have had to think about in EU exit. One example was thinking about how we dealt with post-



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EU subsidies and who would regulate it. We seriously considered whether we should set up a separate public body and then decided that the CMA was more than capable of fulfilling that responsibility.

So, it does happen—both rejections and approvals take place. But to be frank, they are not common activities. It takes quite a lot for a case for a body to come together in the first place and quite often ideas to do so are quashed quite quickly.

Q47 James Wild: Mr Chisholm, you talked about not wanting to have lots of little groups around—obviously, these are spread throughout the NHS and other organisations, which of course nobody would suggest could be done away with. But what has happened to streamlining the number of bodies that are responsible for huge amounts of public spending with limited lines of accountability to Parliament and up through Departments into Parliament? It is not wholly satisfactory for the delivery that some of these bodies are doing. Does the declaration on government reform maintain an ambition to reduce the number of quangos that exist?

Alex Chisholm: Yes, a further reduction is absolutely what we envisage. There will be more stringent control on flow—on the creation of new bodies. Cat just gave you one example. Another one would be that I think there will be a new building safety regulator. Again, that is going to be absorbed within the responsibilities of the Health and Safety Executive, within the Department for Work and Pensions.

So, we are trying to be very careful about creating wholly new bodies, but—also to your point—where there are opportunities to retire bodies, we have taken them. A recent example—admittedly, a slightly obscure one; not a household name—is BPDTS, which was a large body that has now been absorbed into the DWP as of 1 July, following a tailored review saying, “Do you actually need to be a separate body? No, we don’t think you do.” So, that has been taken back into the Department.

On the smaller bodies, a number of them have important functions and they would not like to be consolidated with other bodies. For example, in the Cabinet Office we have Boundary Commissions for different parts of the UK; they do not want to be all combined together. That is also true for things such as the Committee on Standards in Public Life; it is not big, but it does not want to be combined with other bodies.

What we discovered at the Department for Business, Energy and Industrial Strategy when we had a like issue is that a number of independent smaller bodies, such as the Groceries Code Adjudicator, the Pubs Code Adjudicator and the Small Business Commissioner, could have a common back-office system and a common sponsorship support, which would help very much with some of the core things they were trying to do around recruitment, financial management and estate management, etc., because those things are particularly hard to do if you are a small freestanding body.

So, rather than reducing the number of bodies that in many cases are creatures of statute—established following pieces of legislation approved by



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Parliament—we at least worked to take the edges off the potential inefficiency there, by providing common support.

Q48 **James Wild:** That is helpful.

Ms Little, the Chancellor has talked about the need for all Departments to explore rigorously the opportunity for efficiencies and to do things differently. Can you give an assurance to the Committee that that applies and will be tested as much on ALBs, which, as has been pointed out, are managing huge sums of public money, in the forthcoming spending review?

Cat Little: Yes—that process has already started, so we are right in the middle of the efficiency review, where we are holding meetings with all Departments, and for the first time we explicitly asked for Departments to set out efficiency savings from all ALBs within their boundary.

It is quite interesting. We are only halfway through; we will be doing some lessons learned and thinking about what we have seen, in terms of good practice and areas for development. But there is certainly inconsistency as to how Departments work with and think about efficiency across Government. It is a bit early for me to say whether there are rights and wrongs here, but there are certainly areas where we need to pick up how we can support the delivery of greater efficiency from the centre, particularly through benchmarking and data analysis.

Q49 **James Wild:** That is good to hear. This is probably the last question from me. This is to Mr Chisholm or to you, Ms Little: how important do you consider accounting officer system statements within the management, oversight and working with ALBs?

Cat Little: I should take that question. We think they are very important. Much of what Ms Romeo and Ms Finkelstein have explained is within their accounting officer system statement. It is important to be transparent to the public and users of public bodies about how they are governed, how their relationship with their Departments operates and how decision making, performance management and risk management is undertaken. We put a huge amount of emphasis on accounting officers keeping them up to date. They are living documents and they should be regularly reviewed and kept as up to date as possible.

Q50 **James Wild:** The NAO Report highlights that three of the 13 published statements have not been updated since 2017. I have gone through some of them. In large part, they describe the structures within the Department, the exco and other systems. If they have not changed, you can see a case for why they have not been refreshed. Should we be concerned that three of them have not been published? Should they be refreshed and then not updated, if you see what I mean, to show that the process has been gone through if they are still extant?

Cat Little: A bit like you, I went back and looked at all the ones that are published. For the three that have not been, there look to be sensible reasons for why they have not been updated. Luckily, they have not been through a major machinery of Government change in structures or new organisations. We work very closely with accounting officers as part of the



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annual reports process and the compilation of the whole-of-Government accounts, to make sure that they have considered the role of those system statements. They are meant to declare that they have considered whether they need updating.

- Q51 **Mr Holden:** Mr Chisholm, there was much talk recently about NHS England, which is obviously the largest arm's length body out there, being brought back under DHSC direct ministerial control. Have you had any discussions around that in recent weeks? Is that something that you are aware is still being actively pursued?

Alex Chisholm: No and no.

- Q52 **Mr Holden:** Ms Little, could you give us any indication if there has been any talk at the Treasury about NHS England being brought under direct ministerial control or is that something that is now not going to happen?

Cat Little: No, I am not aware of any moves to do that. Of course, there is the NHS Bill that considers more widely the governance and the overall structure of the NHS and the bodies within it, but there are no direct ministerial control proposals.

- Q53 **Peter Grant:** Mr Chisholm, you told the National Audit Office that the Cabinet Office regularly engages with Departments that have taken the decision to set up a new public body and then tried to get through the business case afterwards. What did you mean by the word "regularly" in that context? How often does that happen?

Alex Chisholm: I am not sure I fully understood the question. I am really sorry, but could you repeat it?

Chair: Could you repeat yourself, Mr Grant, and lean in as well, Mr Chisholm? Sound problems, I think.

- Q54 **Peter Grant:** Mr Chisholm, I am referring to the part of the Report in which the Cabinet Office told the NAO that you regularly engage with Departments who want to go through the business case approval process after they have already taken the decision to set up a new body. My question was what does "regularly" mean in that context? How often is it happening?

Alex Chisholm: Okay, I understand the question now. That was not actually my evidence. That was one of the people in the Cabinet Office who the NAO would have spoken to. There is a long list of people at the end of the Report who they spoke to, so one of those people must have made that comment. I am not sure what they meant by this. It is not something that I have said.

There have been around 20 new proposals brought forward in the last three or four years. It is hard to imagine what "regularly" means in that context, but I presume it means that it has happened on a number of occasions.

- Q55 **Peter Grant:** To be clear, did you sign off the Report on behalf of the Cabinet Office?



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Alex Chisholm: Yes, but that is not the same as saying that I gave all the evidence that went into it. I accept that that is a finding of the NAO from interviewing a number of people.

Q56 **Peter Grant:** Thank you. In reply to Mr Wild a few minutes ago, you said that several of the business cases that were presented needed a lot of additional work before they could be approved. In which case, does it not suggest that there is more of a need for the Cabinet Office to keep a close eye on what the Department does with that approval after it has received it?

Alex Chisholm: Yes, broadly you are right. I think that the process of producing those business cases is actually an interactive one. Although we provide a detailed guide on how to do it, I understand that for individual members of staff who have not been through that before, the most natural thing is to talk to people in the Cabinet Office who have been through it, for guidance. That is good and makes a lot of sense.

In terms of the ongoing monitoring, once a new body is in existence—as I think you implied in what you said—that is the particular time for the sponsorship group in the Departments and, to a lesser extent, the Cabinet Office central team to keep an eye on the new ALB to see that it is performing in the particular way that we want it to. Also, there is an open question for us about whether we should be more active ourselves in monitoring the outcome of recommendations from tailored reviews. That is one of the things that we are looking at in this new programme for managing public bodies.

Q57 **Peter Grant:** You told the NAO that the Cabinet Office approach currently is that you do not seek to get involved in understanding how those bodies are being managed by the Departments. How do you reconcile that comment to the NAO with what you have just said now?

Alex Chisholm: It is true that the prime responsibility is, absolutely, with Departments. That has been consistent in the Report and in what I have said today. What I am interested in is when we look at a future tightening up: for example, when a tailored review comes up with a number of recommendations, rather than only allowing the Department to review whether the implementation of those recommendations is complete, should we be keeping the score at the centre? That is obviously something that comes at a cost—it is further bureaucracy—and we need to weigh it against, “Will it add a bit more of an edge?”, which is a bit more stick, so to speak, alongside the carrot.

Q58 **Peter Grant:** Thank you. Having approved a business case for an arm’s-length body to be set up for one purpose, how do you make sure that there is no mission creep, so that we do not end up with the arm’s-length body doing something completely different?

Alex Chisholm: That is absolutely the purpose of the tailored reviews. There have been 100 or 101 of those in the current cycle. They very much look at whether the function of the ALB is still valid, whether it could be performed differently, whether it is fully effective or how its governance



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arrangements are working. The NAO comment, based on interviews of people and a fair assessment, I think, was that they could be less focused on the governance arrangements and a bit more focused on performance. That is the encouragement that we have had from the NAO. Again, it fits with our own analysis of the situation, hence our interest in benchmarking and things like that.

Q59 Peter Grant: Thank you. A final question. If anyone reading the NAO Report—or this Committee, on the basis of today’s evidence—was minded to conclude that there are systemic weaknesses in the Government’s oversight and review of their arm’s-length bodies, is there anyone among the 420 civil servants or full-time equivalents who would be responsible for fixing that problem across Government?

Alex Chisholm: My answer to that would again, I am afraid, go back to what I said before about understanding whose ALBs they are—these are ALBs that report to principal accounting officers and departmental Secretaries of State. That is our whole structure for doing this. So, rather than saying that the overall framework of Government is not performing, I would be more inclined to say, “Is there a particular issue within a particular ALB?”, or, “Is there any pattern of issues within one Department’s group of ALBs?” The framework that we try to have responsibility for is to ensure that the process of creating new bodies is done with due attention and learning from previous examples—it is relatively difficult to do that, as we have discussed—and to monitor them over time, to make sure that they do not have that mission drift you described. Indeed, if there are opportunities to consolidate bodies further, or to retire them, those are taken.

Q60 Peter Grant: To be clear, in answer to the question that I asked about whether there was anyone who is responsible, is your answer that potentially there could be 23 different people responsible if the same kinds of problem are being identified in all 23 Departments? Is it potentially as diverse and scattered a responsibility as that?

Alex Chisholm: The central Departments—Cabinet Office and Treasury—would recognise responsibility for the overall strategic framework. If the problem, or the perceived analysis of the issue, lay in the overall framework, that is squarely with Cabinet Office Ministers, Treasury Ministers and their advisers, including myself and Cat Little. If it was more a performance-type issue or an under-managed risk within a particular ALB, you should look more at the individual Department. In short, it would depend.

Peter Grant: Thank you.

Q61 Dan Carden: I welcome the witnesses this afternoon. Could I start by asking a couple of questions on public appointments, in particular to ALBs, perhaps starting with Ms Finkelstein and Ms Romeo? Would you give me an example of some recent appointments that have been made to ALBs in your Departments? How do those appointments come about, what assessments of conflicts of interest are done, what is the role of Ministers and how would these be signed off?



Tamara Finkelstein: As we have had some conversation about the Office for Environmental Protection, I might talk about the appointment of its chair. Following the rules on public appointments as it is a regulated appointment, we put together a panel. This is a ministerial appointment, and I chair it on behalf of the Secretary of State, so I make sure that I stay close to the Secretary of State and what he is looking for in making that appointment.

We then put an expert panel together. In that case, we had two Cross-Bench peers—Lord Cameron of Dillington and Lord Kakkar, who was the independent member of the panel—and Dame Fiona Reynolds, bringing together a set of expertise to assess candidates against the criteria. It was an advertised post. We long-list, short-list and then do the interviews, during which we talk and ask about conflicts of interest. I stay close to the Secretary of State on that. This was obviously an appointment that was also of interest to the Prime Minister, so the Secretary of State will wish to stay closer to the Prime Minister and his interest in that appointment.

I then provided, on behalf of the panel, a panel report and the names of a number of candidates whom we felt were above the line for the Secretary of State to make a choice on, which he did. In that case, there was then a hearing as well, a joint meeting of the Environmental Audit Committee and the EFRA Committee, because that is what the legislation required, and Dame Glenys Stacey was appointed.

That is a particular example, I suppose, of a high-profile appointment that might be of interest. A not dissimilar process was then done for members. That was chaired by my director general for environment, rural and marine, but it followed a similar pattern.

Antonia Romeo: We have a similar set-up. Obviously, all these appointments are regulated tightly by the Commissioner for Public Appointments. We follow all the usual guidelines, as you would expect. There is a panel in place; the panel makes recommendations. The appointment is, of course, ministerial. For example, in my business it could be the Secretary of State, or it could be him in his role as Lord Chancellor. It might be that it has been delegated to him by the Prime Minister, in which case we would obviously be keeping No. 10 in the loop, but we would go through all the usual processes, in line with what the Commissioner for Public Appointments said.

In particular, MOJ has some areas, like the diversity of people applying, strong candidate packs, advice to Ministers and so on that—I was really pleased to see, on behalf of the team—we were noted for in the recent report from the commissioner. Obviously, there are other areas where we will be striving to do better.

Q62 **Dan Carden:** Thank you. Can I come to you, Mr Chisholm? How are you involved, for example, in the appointment of non-executive directors of Departments, such as the Department of Health and Social Care, and how does that process differ for appointments to arm's-length bodies?



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Alex Chisholm: I am not involved in that particular appointment. I obviously would be involved in appointments to the Cabinet Office board, and indeed I was shortly after I started last year. We had an open competition, and we invited applications from all and sundry. We had a kind of two-stage process to assess people, with independent panel members and so on, and we made recommendations to Ministers.

Q63 **Dan Carden:** Is that for non-executive directors of Departments?

Alex Chisholm: No, of the Cabinet Office, because I am the permanent secretary at the Cabinet Office. That would be true for each Department—you would have the permanent secretary or a delegated individual taking a close interest in the formation of the board. That is absolutely as it should be, as defined within the corporate governance code for central Government Departments of 2017, which is a joint publication of Treasury and Cabinet Office.

Q64 **Dan Carden:** You are confident that public appointments at the moment are fit for purpose? There have been calls for them to be regulated.

Alex Chisholm: Public appointments are regulated. Many of them are regulated by the Commissioner for Public Appointments; they are OCPA regulated—

Q65 **Dan Carden:** Is there Cabinet Office guidance on appointments?

Alex Chisholm: The Cabinet Office guidance—"Governance Code on Public Appointments", which was produced in December 2016 in response to the Gerry Grimstone report—absolutely establishes what process is to be followed for appointments. You just heard colleagues describing the role of advisory assessment panels, the management of conflicts of interest and things like that—that is all embedded in that governance code. That is the code they are following for those processes.

Q66 **Dan Carden:** There has been some controversy around non-executive directors of Departments. There are a number of former Conservative MPs, Conservative party donors, peers, Vote Leave campaigners and family members of Ministers. Is that something that concerns you?

Alex Chisholm: When we look back over the 10 years or more that we have had non-executive directors on boards of Departments, they have played a really important role. It is exactly the role that was envisaged for them—providing a role of challenge and support, and sometimes alternative thinking, for Ministers and officials in Departments, and taking a big interest in the development of talent in Departments and the quality of their oversight system. It is a hugely beneficial system, and none of us should want to go back from that.

In terms of the calibre of the people we are able to attract to Government boards, that really has improved year in, year out. These have become quite prestigious roles; they are not paid very much, but they are seen as being senior, responsible roles. I think we have moved—

Q67 **Dan Carden:** But if these are close friends and party political people who



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are being appointed to oversee Departments—we have seen the latest case in the resignation from the Department of Health—is that not something that concerns you? Can you say that the Cabinet Office code has not been broken in these appointments?

Alex Chisholm: Speaking for ones that I have direct knowledge of—for example, the formation of the Cabinet Office board—when we were looking at the candidates last year, one of the stronger candidates, Gisela Stuart, had been a Labour Minister, in fact, in a previous Administration. We looked at whether or not that would stop her being effective as a non-executive board member in the Cabinet Office. That was considered, and we decided that, no, it did not and should not rule her out, not least because she had been a Health Minister, and had been many years beforehand. Obviously, those are weighed up among a lot of different considerations, but we don't say, as a general rule, that people with political backgrounds and experience should not be allowed to come on to departmental boards. Certainly, their political experience and backgrounds—

Q68 **Dan Carden:** On these positions, because the issue is very topical, are those appointments there to hold Ministers to account and the Department to account?

Alex Chisholm: Yes, both challenge and support to Departments, and obviously Ministers are really accountable to the Prime Minister and to Parliament. That is their main vehicle for accountability, but departmental boards certainly provide a valuable supervisory-type role in managing, in particular, big risks. That is why every Department has a—

Q69 **Dan Carden:** Could you tell me, for instance, how often Ministers override your recommendations or other recommendations from appointment boards?

Alex Chisholm: Override is not quite the way I would put it, in the sense that the way in which recommendations usually go to Ministers on public appointments is that there would be a choice of appointable persons who were seen to have the requisite qualities. If you have a choice, there is no overriding—

Q70 **Dan Carden:** Have you ever been surprised by decisions Ministers have taken against recommendations?

Alex Chisholm: To my knowledge, there have been no occasions when somebody who was found to be not appointable by a panel for an OCPA-regulated process has then been appointed. I am pretty sure about that because it would have to have been reported on by the Commissioner for Public Appointments, and there have been no such reports.

Q71 **Chair:** On the same point, Mr Chisholm, what is the guidance? Can you update us on the guidance for appointing non-civil servants to be the independent or external members of an appointment panel?

Alex Chisholm: That is set out within the Government's code on public appointments—the one I mentioned, from December 2016. They discuss there the composition of the advisory assessment panel—what type of



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persons, what role they should perform. You have just heard from my permanent secretary colleagues about how it operates in practice.

Q72 Chair: Are you confident that that group of people is diverse enough in all respects?

Alex Chisholm: That is one of the things that the Commissioner for Public Appointments is particularly required to encourage and comment on. If you look through his diligent and detailed feedback to Departments every year, sometimes he says, "Excellent, you have done a very good job here." In other respects, he says, "Look, in this area, you need to work harder."

Q73 Chair: It's all very well to pass that on. Of course, the Commissioner for Public Appointments has an important role—I remember when the post was set up—but that doesn't stop Departments trying to do a better job themselves, and reach out and find more diverse people. There was a recent criticism of the civil service by a think tank about the lack of diversity, and we know that good governance, as our sister Committee PACAC has highlighted, is best done by groups that are truly diverse and represent a wide range of people and opinions. I am one of those people who crawls through the public appointments lists regularly, and it is interesting to note who is on the panels, as well as who is appointed. I have to say it isn't very diverse. What do you think you should be doing, and what are you doing, to improve that, rather than waiting for a rap on the knuckles or praise from the Commissioner for Public Appointments after the event?

Alex Chisholm: I do agree with you that Departments have lead responsibility. When I was at BEIS, where we had a lot of arm's-length bodies and we had a lot of influence, and we were making hundreds of appointments every year, we looked self-critically at our record in that respect and found that we were not appointing as many people as you would expect from an ethnic minority background.

We looked at all the root causes of this, and we changed the way in which we were recruiting and the way in which we promoted. We produced a new kind of brochure that presented differently what it was to be a non-executive director in our Department or one of our arm's-length bodies. We had a very big recruitment campaign. We had a number of open sessions that we invited people to. We buddied people who were interested in becoming a non-executive director with existing people, particularly people of the same gender or the same background. We did a lot to try to open that up and it was successful in improving the diversity of the candidate list and the appointments that resulted.

The Cabinet Office does not make anything like the same number of appointments—we are much smaller in terms of the arm's-length bodies—but we have been going through some like exercises. I agree that, as part of that, the diversity of the panel, as well as the candidates, can make a difference.

I agree that, as part of that, the diversity of the panel as well as the candidates can make a difference. Where we have worked with search



agencies, which is not invariably, it is an important part of their brief to work harder to make sure we have a very diverse choice.

- Q74 **Chair:** Crawling through these, I can see that there are examples—I won't name one—where there are two people with very strong political connections to current Ministers on a board with a relatively junior civil servant. Do you think that is a fair balance, and does it mean that sometimes there is a risk, as there is a vast difference between someone not being appointable, and someone not being the best person for the job? Do you think the balance is always fair on those panels?

Alex Chisholm: I am not aware of the particular instances, but I absolutely agree with you that it is very important that the appointments are genuinely made on merit and that the criteria that are applied are very open and objective. That is absolutely baked into the governance code on public appointments. If there are any instances where you feel we are falling short on it, that is obviously something we should tighten up further. Overall, however, when you look at the range of appointments—about 900 new appointments a year and around 800 reappointments—the standard is very high, the quality of the candidates is excellent, and the process is very thorough.

- Q75 **Chair:** Do you do any review afterwards, or do you leave that to the Commissioner for Public Appointments? Do you, as the Cabinet Office, take a look across the whole and see whether any Departments or bits of Government are doing better than others, and help them learn from each other?

Alex Chisholm: We certainly do, and although the comparability of data—I am glad to have the chance to mention this—has not been that great in the past, and has been too much of an email and spreadsheet approach, we are now developing a new website for public appointments and a new application tracking system. That will make it much easier to make these comparisons between Departments and to look at the timeliness of those appointments, aftercare for candidates and other important aspects of the code.

- Q76 **Chair:** Are there any appointments that you are aware of that have not been made purely on merit, rather than this sort of non-appointable person definition you gave earlier?

Alex Chisholm: No, I am not aware of any.

- Q77 **Chair:** Maybe the independence of the civil service means that perhaps you are not alert to some of the very real issues that can arise, but perhaps we'll take some of this offline, as there are certainly things we can raise. But I do want to go back to the issue of arm's-length bodies. This is an area of risk that Mr Carden has highlighted, but there are other areas of risk and risk management. Perhaps I could ask you, Cat Little: what are the things that keep you awake at night in terms of the risk of arm's-length bodies in the Treasury? They are spending a lot of money, as you highlighted, with 30% of money being spent out of the Government purse—taxpayers' money. What are your worries about the risk profile of



arms-length bodies?

Cat Little: As you say, a huge amount of public expenditure is going through quite a small number of very large public bodies, so there are two things. First, there is a need to make sure that we are working very closely with Departments and principal accounting officers responsible for their oversight. Especially over the last year, the significant amount of increased public funds going into public bodies has been extraordinary, especially in the health context. Working very closely with Test and Trace and the NHS was important to make sure that they very rapidly and quickly responded in their governance for managing these risks.

Secondly, a lot of the smaller bodies are risky not because of their scale, but because of what they do, so my other point is about making sure that we don't always use money as the arbiter of risk. While it is easy to quantify and we readily turn to it, I worry about making sure that we try to assess the things that aren't easily quantifiable in managing risks more broadly across some of our smaller, more niche public bodies in particular.

Q78 **Chair:** That brings me to you, Mr Chisholm. But before I go on, Ms Little, you seemed to alight there, with a Treasury eye, on cost. Are you implicitly saying that some of the health bodies, like Test and Trace, worry you particularly because of the scale of the funding that they are managing? Is that a fair summary or am I overreaching?

Cat Little: As I have said to this Committee in passing before, inevitably, during the pandemic, we've had to spend much more money, and take on more risk, with less mature governance and oversight.

Q79 **Chair:** We know that. So, are you saying that you're particularly worried in the Treasury about some of these health bodies, including Test and Trace, which you have just named?

Cat Little: I wouldn't say worried, but it has meant that we've had much closer scrutiny and more assurance than we would normally have for new bodies of that nature.

Q80 **Chair:** We have Test and Trace in front of us on Thursday, so we can pick that up then.

Mr Chisholm, there clearly are small organisations with very particular risks, but there are also big issues that create risks across the whole, like Brexit and covid. The NAO highlights that a lot of the arm's-length bodies would like more support from the Cabinet Office—your colleagues touched on that earlier. What are you doing to provide more support? Just to warn you, Ms Romeo, I will come to you in a moment about the centre of expertise at the MOJ.

Alex Chisholm: There are different forms of support. Obviously, we publish more and more guidance—that is definitely one part of it. We provide support groups so that people can network with each other. We highlight examples of good practice for people to follow and we provide more templates, for example on how to do framework development documents.



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The Treasury has just published that. All those are ways in which we can assist.

When we look at the cross-cutting issues—cyber-risk and legacy IT were mentioned earlier—we recognise that it is difficult for individual smaller ALBs to be fully up to date with the latest thinking on the greatest risks and how best to respond to them. That is one of the roles of the cross-cutting Government function for security. Antonia Romeo mentioned the functional work beforehand. That is the Government security function. It provides that kind of external testing and checking, and it reports back to Departments and says, “Look, here’s what you need to do differently and better to assist your ALBs,” and ultimately sometimes—

- Q81 **Chair:** That is good, as far as it goes, but why do you think they are asking for more? What dialogue are you having with them about what more support they might need, particularly on things like Brexit? You talked about support groups, but there are similar lessons. There may be very specific issues for some ALBs that are just too small to manage them themselves. What other support can you offer?

Alex Chisholm: We would be very much driven by ALBs and Departments as part of that. We are just setting up—perhaps I should have made this clear at the outset—a new Government public bodies programme for the remainder of this Parliament. The NAO Report, what the PAC has to say to us today and what you say in the write-up of your report are all incredibly valuable inputs. We have been going through a consultative exercise with ALBs and Departments as part of this, so where they identify additional needs for support, we try to meet them.

A particular one that was identified was that a number of individual NEDs were saying to us, “We’ve had to figure out a bit ourselves how to perform the role of being a NED. Notwithstanding your formal guidance, it would have been useful to have a bit more training.” We have now provided a new standardised induction, which has been very well appreciated by the NEDs who have gone into it, to try to help them to be immediately fully effective, rather than working it out over time.

- Q82 **Chair:** Is that for a particular form of non-executive director? Is it at departmental level or arm’s-length body level? Is it people who have come from outside Whitehall? Was there any thematic need?

Alex Chisholm: It was initially focused on departmental NEDs, but it is open in principle to all ALB NEDs and we are going to extend it in that way. When I was at BEIS, because we had so many ALBs, we provided that support at a departmental level. There was a very strong family identity between all the different partner organisations. I suspect that might well be true for the MOJ and DEFRA because they have so many bodies. We are very happy to provide this kind of standardised induction as a default, especially for the smaller Departments that do not have that many ALBs.

- Q83 **Chair:** I want to touch on the centre of expertise at the MOJ, which you mentioned earlier, Ms Romeo. Can you give us a little more information about that and about how it is evolving to meet the needs of your ALBs?



Antonia Romeo: It is a team that sits in our finance, performance and risk directorate. It has 26 people, as I say, who are full time just focused on this. They are looking at maintaining the relationships between the MOJ and its ALBs. So, they will do things like ensure that the ALBs are held accountable for performance and use of resources. They are ensuring that an appropriate risk framework is in place. They are essentially making sure that I am delivering on my accountabilities in managing public money, and they are pulling that together.

Then there is a separate team that does the risk management across the whole organisation. They are pulling together the inputs from the ALB centre of expertise with those from the rest of the MOJ. That is what is coming up to the executive committee and the departmental board, and the ARACs—the auditing risk assurance committees.

Q84 **Chair:** Ms Finkelstein, do you have a similar set-up at DEFRA?

Tamara Finkelstein: We have a small degree of central resource. In part, we dialled down the central resource as part of a wish to dial up on operating systems, because our concern was about managing each of our ALBs very separately when there was quite a lot of shared priorities and shared risks. We are now looking at building up a bit more of that central resource on a similar model. However, I would say that we do some of the things of that Ms Romeo talked about through our finance function, for example, so we do have ways in which we do that, but we are going to build, probably, a more dedicated, small, central team as well.

Q85 **Chair:** Thank you. Mr Chisholm, when John Manzoni appeared in front of us in 2016, he promised that every public body would be reviewed once per Parliament. At that time, per Parliament was about every five years; obviously things have changed, so I would be grateful if you said first why you have not managed to do that, and secondly what time frame you would like to see for every arm's-length body to be reviewed, given that Parliaments could now be quite different lengths, and obviously have been since 2016.

Alex Chisholm: I don't know if Sir John regretted giving that statement, because we certainly didn't complete—

Q86 **Chair:** Was that a mandarin dig at someone who was an outsider to Whitehall?

Alex Chisholm: No, no; 295 out of 295 would have been the top score; we did 101. We focused on the bigger bodies, and that was a major undertaking, which has been valuable. Going forward, we are keen to make sure that we don't only do it in a mechanistic way, blind to where the underlying risks are or where there is a big area of change. We want to focus more attention on big, powerful new bodies like UKHSA, relative to smaller bodies, which in some cases have been going for a century or more. It should be more proportionate.

Q87 **Chair:** So you're not sticking to once per Parliament, from the sounds of it. So, when are you going to have a schedule for when you will review,



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and what flexibility are you building into that? You are suggesting that the riskier, newer ones are going to have a bit more of a hands-on approach.

Alex Chisholm: Yes, that's the programme that we are putting together now, and it launches at the beginning of next year. It will be a three-year programme, so we should have a clear schedule from that, and I am sure it will be reported.

Q88 **Chair:** It is a bit like with Ofsted; if you get a lot of complaints about a body, would that mean that you would bump it up the list and have a closer look, sooner?

Alex Chisholm: Yes, that certainly has been an option, including when there is a perceived moment of crisis or low public confidence. You will remember that, historically, for example, the UK Statistics Authority had the Bean review five years ago. Here we are five years later, and we think that the UK Statistics Authority is working well, but it is a big, powerful agency that has gone through a certain amount of change. It has done a census and we have all seen the power of data during the pandemic. We are going to do a tailored review starting in the second half of this year, and that is one of the Cabinet Office bodies. We are trying to take more of that kind of approach, with an eye to time and regularity, but also to what has changed, what the risk is and what is at stake.

Q89 **Chair:** Finally, Mr Chisholm, we have gone a long way around the subject here and had an interesting discussion, but it does strike us that quite a lot of effort is needed to change an ALB. If you are a busy permanent secretary or head of the Cabinet Office, you have a got a lot of things on your plate; you've got Brexit and covid—just a couple of things at the moment keeping you busy. Is there really a desire to see a realistic reform programme for arm's-length bodies, or is it just something that, a bit mechanistically, has to be done unless there is a crisis, in which case one pops up the list as more important to deal with?

Alex Chisholm: I think this is one of the things that is very important. It is not always urgent, but it is extremely important, and I think it goes to the structure of government, to accountability, to performance and to the use of public funds—all those things. Don't just take my word for it, because you can also see that in the Government reform declaration, which, as you know, was signed by the Prime Minister and Cabinet Secretary on behalf of the whole Cabinet and all Permanent Secretaries, there is a very strong statement that one of the core actions of Government reform is, "Commence a review programme for Arm's Length Bodies and increase the effectiveness of their departmental sponsorship, underpinned by clear performance metrics and rigorous new governance and sponsorship standards." We put it into that very strong public declaration to bind ourselves because we agree with the NAO and with this Committee, historically—I think you were present in 2016—that ALBs do have a very important role to perform, and we are very keen to help support them in performing that role as well as possible.

Chair: Thank you very much to all our witnesses for a useful discussion. We hope that we can make recommendations that will sharpen the work that



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you are all doing to keep your arm's-length bodies doing a good job and to call them out when they're not. Thank you very much indeed for your time. The transcript of this session will be published uncorrected on the website in the next couple of days, and it is likely that our report will be out in the autumn, given that we are running into our summer recess.